

# **City of Lynchburg Follow Up Review Capital Projects Management**

**September 19, 2006**

**Prepared by the Internal Audit Department**

## **Introduction**

In 1999, this department performed an audit of the City's Capital Improvements procedures which disclosed non-compliance with procurement requirements, incomplete file documentation, no central record of contract obligations, inefficient project monitoring, an out-dated comprehensive plan, an inaccurate method for allotting City staff time to projects and unencumbered contract amounts.

Management concurred with the exceptions noted and agreed to implement corrective measures. This review was performed at the request of the Deputy City Manager to determine whether the actions taken by management are effective.

## **Scope of Work**

The audit covered the period of July 1, 2004 through June 30, 2006 and included a review of project files, Requests for Proposals and Invitations for Bids, contract documentation, Capital Work In Progress schedules, payment documentation and financial reports. We also met with staff in Financial Services, Utilities, Community Development and the Airport to discuss processes.

The audit was conducted in accordance with professional internal auditing and generally accepted governmental auditing standards specified in the City's Internal Audit Charter and, accordingly, included such tests of records and other audit procedures as were considered necessary in the circumstances.

The Internal Audit Department is free from organizational impairments to independence in our reporting as defined by government auditing standards. We report directly to an audit committee and, administratively to the city manager and are organizationally outside the staff or line management function of the areas we audit.

## **Opinion On Internal Controls**

The objectives of a system of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are properly recorded.

It is our opinion that adequate controls are now in place to ensure adequate safeguarding of assets and proper authorization and recording of transactions.

## Observations

The City has taken positive steps toward improving the Capital Improvements process, including the following accomplishments:

- A Comprehensive Plan was adopted by City Council in September, 2002;
- The Contract Processing module of New World Systems was implemented. With this module, every contract is assigned a number and can be easily monitored;
- The Project/Grant Accounting module has been utilized for accumulating appropriations and expenditures for City Capital Projects in the general fund. Other funds will be entered to the module in the future;
- Contract obligations are now encumbered;
- There is central project oversight by staff project managers; and
- Procedures have been put in place for many of the processes, such as project management and project close-out.

Although there have been many improvements made in the program, we noted the following issues which we felt needed to be brought to management's attention:

### Procurement

- I. A 1988 agreement with an A/E firm for a 3 phase CSO program is still in effect. The agreement, which includes in phase III, "Develop plans and specifications for selected projects in order to implement the CSO Control Program and provide associated construction administration services", does not comply with the Virginia Public Procurement Act (VPPA).

Section 2.2-4301 of the Act specifies, "A contract for architectural or professional engineering services relating to construction projects may be negotiated by a public body for multiple projects provided (i) the projects require similar experience and expertise, (ii) the nature of the projects is clearly identified in the Request for Proposal, and (iii) the contract term is limited to one year or when the cumulative total project fees reach the maximum cost authorized in this paragraph, whichever occurs first". It also states, "For local public bodies, such contract may be renewable for two additional one-year terms at the option of the public body". The sum of all projects under this contract for a locality with a population in excess of 80,000 should not exceed \$1 million, and the fee of any single project should not exceed \$200,000.

In addition, based on the agreement noted above, separate contracts are drawn up for the individual projects. However, neither the original agreement nor the

separate contract documents include the clauses and documentation that are required by the VPPA for contracts over \$10,000 that are issued by public bodies.

- II. Management's response to the 1999 audit stated, "In the future, through the Business Systems Initiatives Process, we will make every effort to ensure that RFP's and contract documents contain necessary requirements and clauses". At the time of the audit, all contracting with A/E firms was handled by the Engineering Division, but is now handled by the Procurement division within the Department of Financial Services.

We reviewed Requests for Proposals (RFP) for engineering services for six (6) projects and noted the following:

- Three (3) files did not include evidence of licenses and registrations;
- Two (2) RFP's did not include clauses requiring payment to subcontractors and suppliers within 7 days after receipt of payment from the City;
- One RFP had no default clause;
- None included an "Ethics in Public Contracting" clause; and
- One had no "Prohibition of Drugs and Alcohol at the Workplace" clause.

The proposal closing dates for four of these projects were prior to 2004 and the reorganization of the Procurement Division, so we selected RFP's for two additional projects with closing dates of November, 2004 and December, 2005 and found no exceptions. We believe this is due to staff changes in procurement and the implementation of corrective measures.

#### Project Monitoring/Administration

- I. We reviewed invoices from and payments to the A/E firms for 4 projects and noted the following:
- Payments made for miscellaneous and travel reimbursements were unsupported for one project;
  - Invoices from one A/E firm did not indicate the personnel performing the services, or the hourly rates charged; and
  - Another firm did not indicate the services performed or the hourly rates charged.

The Assistant Director of Utilities contacted the firm noted in the third bullet and the invoices have now been changed to reflect the services performed and the hourly rates charged for those services.

*We also reviewed invoices from and payments to construction firms for the 4 projects and found no errors or exceptions.*

- II. Management's response to the 1999 audit stated, "A review process to evaluate the performance of both professional consultants and contractors utilized for City projects will be developed. This review will take place by November 1, 1999, and a formal review process developed and in place by April 1, 2000".

We did not find evaluations of A/E firms or construction companies in the project files for those projects that were completed.

## **Other Comments**

We appreciate the cooperation and assistance from the City's staff involved in the capital construction program and commend them for the improvements made in the process. We are available to discuss this review should there be any questions.

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Michelle Kuhn, Assistant Auditor

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